

LEGISLATIVE AUDIT COMMISSION



Review of
Office of the State Fire Marshal
Two Years Ended June 30, 2002

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**REVIEW: 4193
OFFICE OF THE STATE FIRE MARSHAL
TWO YEARS ENDED JUNE 30, 2002**

FINDINGS/RECOMMENDATIONS - 8

**ACCEPTED - 7
IMPLEMENTED - 1**

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 4

This review summarizes an audit of the Office of the State Fire Marshal for the two years ended June 30, 2002, filed with the Legislative Audit Commission on April 16, 2003. The auditors performed a compliance audit in accordance with *Government Auditing Standards* and State law.

The Office of the State Fire Marshal was created by the State Fire Marshal Act effective July 21, 1977. The Office is located in Springfield, with additional offices in Chicago and Marion, Illinois. The primary function of the Office is public safety. The Office's mission statement is to reduce death, injury, and property loss of Illinois citizens from fires, explosions, and other hazards. The Office is organized into the following divisions: Arson Investigation, Fire Prevention, Boiler and Pressure Vessel Safety, Petroleum and Chemical Safety, Personnel Standards & Education, and Management Services.

Mr. Thomas L. Armstead was the State Fire Marshal until January 31, 2001. Ernest Russell served as the State Fire Marshal for the remainder of the audit period. Peter F. Vinã was appointed to the position on July 17, 2003. Mr. Vinã previously served as manager of the State Fire Marshal's Chicago office from 1989 through 1995. Mr. Vinã has not yet been confirmed by the Senate.

Appendix A summarizes certain activities of the Office of the State Fire Marshal. According to the audit report the Office of the State Fire Marshal performed 21,748 fire prevention inspections on buildings. The Office conducted 1,081 arson investigations and inspected 3,617 underground storage tanks in FY02. Inspection of each tank and associated piping is required upon installation or removal. The Office also reimbursed local fire departments for part of their training costs.

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The average number of full-time equivalent employees is presented below:

<i>Division</i>	<i>FY02</i>	<i>FY01</i>	<i>FY2000</i>
Arson Investigation & Fire Prevention	21	22	23
Fire Prevention	39	42	43
Boiler & Pressure Vessel Safety	21	22	22
Petroleum & Chemical Safety/Storage Tanks	30	28	30
Personnel Standards & Education	8	8	8
Management Services	30	28	29
Department of Corrections	-	-	1
<i>TOTAL</i>	149	150	156

Expenditures From Appropriations

Appendix B presents a summary of appropriations and expenditures for the two-year period under review. The General Assembly appropriated a total of \$20,803,700 to the Office of the State Fire Marshal in FY02: approximately \$3 million from GRF; \$12.7 million from the Fire Prevention Fund; \$4 million from the Underground Storage Tank Fund; and \$1 million from other funds. Total expenditures for all funds decreased from \$16,942,630 in FY01, to \$16,620,770 in FY02, a decrease of \$322,630, or 1.9%.

In FY02, the \$3 million in GRF funds was earmarked largely for homeland security, and approximately \$530,000 was used for that purpose. The remainder lapsed. In FY02 and FY01, there were significant decreases in appropriations and expenditures from the Capital Development Fund and the Fund for Illinois' Future because previous expenditures were one-time grants for non-recurring expenses.

Cash Receipts

The table appearing in Appendix C summarizes a comparative summary of cash receipts for the Office of the State Fire Marshal. Total cash receipts increased from \$2,297,361 in FY01 to \$2,501,932 in FY02.

Registration fees in Underground Storage Tank (UST) have declined in recent fiscal years due to the 12/31/99 US EPA registration deadline for leaking tanks.

Accounts Receivable

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Appearing in Appendix D is a summary of accounts receivable. Total accounts receivable increased from \$241,000 in FY01 to \$295,000 in FY02. In Appendix D under "Aging of Accounts Receivable," almost half of the Total Receivable for the Underground Storage Tank Fund is considered uncollectible. Since 1996, the Agency has written off almost \$1.8 million in doubtful accounts related to the Underground Storage Tank Fund. Recommendation two in the audit report relates to problems in accounts receivable and the collection of receivables. This finding has appeared since 1990.

Property and Equipment

Appendix E is a summary of property and equipment transactions of the Office of the State Fire Marshal during the period under review. The balance increased from \$3,202,092 as of July 1, 2000, to \$3,504,262 as of June 30, 2002. The increase was due primarily to purchases in the Management Services and Arson divisions.

Accountants Findings and Recommendations

Condensed below are the eight findings and recommendations included in the audit report. Two are repeated from prior audits. The following recommendations are classified on the basis of information provided by Larry Smith, Fiscal Officer, Office of the State Fire Marshal, via email received January 16, 2004.

Accepted or Implemented

- 1. Establish internal controls to ensure contracts are appropriately established and adequately monitored, and expenditures are reasonable, necessary, properly documented, and in compliance with applicable laws, rules, and regulations, especially the following:**
 - **comply with the competitive procurement provisions of the Procurement Code or comply with statutory provisions for sole source procurements;**
 - **request appropriations and draft contracts in accordance with Agency needs and monitor compliance with appropriation restrictions and contractual provisions;**
 - **obtain and maintain adequate documentation for all vouchers processed to ensure goods and services contracted have been provided and that the expenditures are reasonable and necessary;**
 - **record expenditure amounts in accounts based upon the actual expense category; and**

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- **determine the Firefighters Memorial Foundation's plans for the unspent State funds and recoup any overpayments to the Foundation.**

Findings: The Office did not exercise proper control over the expenditure and monitoring of monies paid from the Firefighters Memorial Fund.

Funds were raised from the Firefighters Memorial license plate sales through the Secretary of State. The Secretary of State collected the funds and annually remitted them to the Agency. The funds were appropriated for the construction of a firefighter monument in Springfield. The FY02 appropriation also allowed expenditures for monument maintenance, an annual memorial ceremony, and scholarships to children of fallen fire fighters. The monument was dedicated in May 1999.

All of the FY01 appropriation (\$130,000) and 86% of the FY02 appropriation (\$150,000) has been remitted by the Agency to the Firefighters Memorial Foundation pursuant to an annual contract for the maintenance, planning and on-going construction of the Firefighters Memorial. The auditors noted the following concerns:

- The Agency did not use competitive procurement or sole source procurement in awarding the contract to the Foundation;
- The Agency did not require sufficient written documentation by the contractor to support goods and services provided;
- The Agency did not comply with appropriation and contract restrictions on the purpose of expenditures. Further, no scholarship program had been established and no scholarship had been paid.
- The Agency charged property construction and maintenance line items for the amounts remitted to the Foundation, but did not have invoices or other documentation to support the expenditures.

The auditors stated that the Foundation had only \$8,000 in capitalized construction costs for the Memorial and little or no maintenance expenses in FY2000 or FY01. The largest expense was \$36,500 for the annual memorial services and receptions in 2000 and 2001. The majority of funds remained in a cash account with over \$334,000 at December 31, 2001.

Response: Implemented. The Agency has contacted the Firefighter Memorial Foundation and notified them of the changes in procedure, with fund distribution now being a reimbursement for expenses incurred as allowed by law. The Foundation is finalizing their rules for scholarships to be issued and plans to begin issuing these scholarships within the next year. Contract language has been changed to reflect these new procedures. The Agency views the Foundation as a sole source provider. Finally, the Foundation will be contacted regarding its plans for unspent State funds and notified of State law regarding recouping unspent funds.

2. **Strengthen procedures to monitor and pursue collections on delinquent accounts receivable such as regular billings, and refer delinquent accounts to the Comptroller's Offset System and other collection methods. Monitor listings**

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of accounts receivable monthly to better administer proper collection procedures and minimize the need for write off of receivables in the future. (Repeated-1990)

Findings: The Office did not sufficiently monitor and pursue collections on delinquent accounts receivable. At June 30, 2002, Boiler and Pressure Vessel Safety Inspection receivables consisted of 5,714 accounts totaling \$268,000, of which \$120,000 is past due, and \$49,000 (1,347 accounts) is past due over 180 days. Underground Storage Tank (UST) receivables consisted of 25 accounts totaling \$27,500. The accounts receivable balances reported for FY01 and FY02 in the UST Division are substantially less than reported in prior years due to write-offs and not enhanced collections.

The auditors noted that both the Underground Storage Tank Division and the Boiler and Pressure Vessel Safety Division have inadequate accounts receivable collection procedures to ensure proper collection of fees due each fund. In both instances, after the initial inspection, an invoice is sent and a second notice is sent 60 days (Boiler Division) or 90 days (UST Division) later, if the account is unpaid. However, after the second notice, there is no formal procedure to pursue collection on the accounts with balances.

By not administering proper accounts receivable procedures, the Agency increases the likelihood that all monies owed for inspections performed will not be collected and must be eventually written-off.

Response: Accepted. The Agency has worked toward implementing prior recommendations regarding this finding, which has been a continuing source of discussion. The Agency has discussed the collection of past due accounts with a number of collection agencies recommended by the Debt Collection Board. However, due to the small amounts of the individual accounts (typically less than \$50), the firms were reluctant to take responsibility for collection. As such, the Agency has formally designated an individual within the Boiler and Pressure Vessel Safety Division to review all accounts on a monthly basis and follow up with additional correspondence beyond the issuance of a second notice. After reasonable means of collection have been exhausted, the Agency will refer delinquent accounts to the Comptroller's Offset System as appropriate. In addition, an individual will be designated within the Petroleum and Chemical Safety Division (Underground Storage Tank Division) to review all accounts on a monthly basis and follow up with additional correspondence.

- 3. Comply with established procedures to ensure that all GAAP reporting forms are timely filed, accurately completed, and properly supported. Key finance department personnel should be cross-trained so that any future unanticipated staffing changes do not create filing delays. (Repeated-2000)**

Accepted or Implemented - continued

Findings: The Office did not timely file or correctly complete GAAP reporting forms and could not support all amounts reported to the Comptroller.

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Response: Accepted. The agency believes that there will be no further problems with the GAAP reporting forms. Problems with the FY2001 GAAP package resulted from required changes that caused Agency staff to seek assistance from the Comptroller's Office. Unfortunately, there was no one available to offer help beyond what Agency staff already knew. By the time we received assistance, the deadlines had passed.

Problems with the FY2002 GAAP package were the result of the staff taking advantage of the Early Retirement Initiative (ERI) and leaving before work was complete and without providing extended notice of their intent to leave. Staff from the Comptroller's Office came to the Agency to help complete the packages.

The Agency now has a full fiscal staff and anticipates no problems once appropriate training has been provided by the Comptroller's Office.

- 4. Develop standards to monitor vendors providing development and maintenance of applications. Include clear and thorough contract provisions specifying expected contract deliverables including the provision that adequate system, program, and user documentation be developed for all components under development. Continuously monitor compliance with contract provisions to ensure the contract is being adhered to, and to ensure system development is completed as specified. In addition, maintain documentation in these areas.**

Findings: The Office had not established adequate controls over third party development/changes to applications. During fieldwork on the Boiler and Pressure Vessel accounts receivable applications and the Storage Tank Registration application, the auditors noted the following:

- Documentation did not exist regarding the development of the applications;
- Documentation did not exist relating to the data conversion of the Boiler and Pressure Vessel accounts receivable data. Additionally, there were inconsistencies of converted data.
- Documentation did not exist of changes made to the applications.

To assist in the accomplishment of their statutory mandates, the Office utilizes automated data processing systems. To assure quality control and achievement of objectives, good management practices would require that the Agency establish standards that would apply to all application system development or modifications to existing systems.

Response: Accepted. The Agency will implement the recommendations when dealing with third party vendors. The Boiler and Pressure Vessel System (Jurisdiction Online) was reviewed by Agency staff before acceptance. Additional work for the Petroleum and Chemical Safety system will also be thoroughly reviewed and standards developed. A formal policy will be developed and implemented for monitoring third party vendors and maintaining documentation. The Agency is still in the process of developing and reviewing a policy for monitoring third party vendors. Early retirement (and upcoming retirements)

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have hit the Information Technology section hard and is impacting the Agency's ability to move forward.

5. Designate appropriate resources to reduce the backlog of inspections.

Findings: The Office had a high number of past due inspections of Boiler and Pressure Vessels. The Office is required by law to thoroughly inspect the construction, installation, condition and operation of boilers and pressure vessels in the State at periodic intervals ranging from annually to once every three years. The inspections can be performed by authorized insurance company officials or by trained inspectors.

Of the 47,373 boilers and pressure vessels required to be inspected, there was an inspection backlog of 14.6% as of June 30, 2002.

Response: Accepted. The agency will do everything within its means to address this issue subject to appropriation approved by the General Assembly and the Governor. The loss of inspectors due to hiring freezes and early retirement has severely hampered the Agency's ability to address the backlog issue. Another factor is the increase in the number of items requiring inspection. Finally, the State is required to pick up inspections of facilities where insurance was cancelled (leaving no insurance company responsible to perform inspections). The State is ultimately responsible to make sure inspections are completed, and the Agency will do what it can with what is available.

6. Comply with the law and ensure written notices are complete and timely when formal charges are filed.

Findings: According to the Fire Equipment Distributor and Employee Regulation Act, the Office shall adhere to certain formal requirements for notifying individuals by certified mail of formal charges levied, information regarding the schedule hearing, and the individual's rights and responsibilities. Only one fire equipment distributor was formally charged with noncompliance during the audit period. The letter of notification was not sent certified mail, return receipt requested. The letter did not contain the following information as required:

- The nature of the complaint;
- The need to appear personally and be represented by counsel;
- The right to produce witnesses and evidence on their behalf, and the right to cross-examine witnesses and refute evidence against them;

Accepted or Implemented - concluded

- Notice that the hearing could result in disciplinary action including license rescission;
- The rules of conduct for the hearing; and

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- The hearing officer is authorized to preside at the hearing and make findings of fact, conclusions of law and recommendations.

Response: Accepted. In this instance, a specific procedure as outlined was not followed; however, in the future, every effort will be made to ensure compliance with outlined procedures.

7. Ensure the enforcement of the Elevator Installation Act or pursue legislation to have the responsibility for enforcing the Act changed.

Findings: The Office took no measures to oversee or enforce the provisions of the Elevator Installation Act. The Act sets forth specific requirements for the installation and operation of all hospital elevators over 55 feet high, and elevators over 80 feet high in offices, hotels, factory buildings, and residential buildings. The Act requires that its provisions be enforced by the State Fire Marshal.

Response: Accepted. Inspections are done by local units of government; however, the process is not fully under the oversight of the Agency as required by law. The Agency will work to integrate enforcement of this Act with enforcement of the newer Elevator Safety Act. Prior to the current fiscal year, the Agency received no funding for this purpose. The Agency will pursue appropriate means to affect changes in the current status.

8. Ensure that the Chief and Deputy Inspectors provide bonds in the appropriate amounts to comply with the statute or seek a legislative remedy for this statutory requirement due to the fact that the inspectors no longer collect fees for inspections they perform.

Findings: The Chief and Deputy Inspector in the Boiler and Pressure Vessel Safety Division did not obtain bonds of \$5,000 and \$2,000, respectively.

Response: Accepted. For many years, boiler inspectors have not received payment for inspections; instead, these are billed directly by the Agency and mailed by the companies to the Agency. This has eliminated the need for inspectors to be bonded. The Agency has continually sought to delete the bonding requirement from statutes and will again seek to have the requirement eliminated from the statutes.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for

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repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During both FY01 and FY02 the Office of the State Fire Marshal did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Office of the State Fire Marshal indicated July 2002 that 83 employees were assigned to locations other than official headquarters.